

Message Text

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ACTION EB-08

INFO OCT-01 NEA-11 ISO-00 JUSE-00 L-03 H-01 SP-02
ICA-11 AID-05 NSC-05 TRSE-00 SS-15 STR-07 OMB-01
CEA-01 PA-01 SSM-03 CTME-00 DOE-15 SOE-02 CIAE-00
FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03 LAB-04
SIL-01 COM-02 /117 W
-----061998 110428Z /17

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FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 8978
INFO AMCONSUL ALEXANDRIA

C O N F I D E N T I A L CAIRO 12626

E.O. 11652: GDS
TAGS: ECON, EFIN, PINT, EG
SUBJ: FORMER FINANCE MINISTER SOUNDS NOTE OF WARNING RE
WAGE INCREASES

REF: CAIRO 07905

SUMMARY: PA PLAN AND BUDGET COMMITTEE CHAIRMAN DR. AHMAD
ABU ISMAIL (FORMER MINFIN) EXPRESSES CONCERN THAT GOE'S
PROPOSED WAGE INCREASES WILL FUEL PRICE INFLATION RATHER
THAN HELP MITIGATE ITS EFFECTS ON WAGE EARNERS. ADMITTING
THAT GOVERNMENT FOLLOWED RIGHT TRACK IN INCREASING
COMMODITY PRICES OVER LAST YEAR, HE SAID GOE SHOULD HAVE
HAD MORE GRADUAL WAGE INCREASES EARLIER; DISCONTENT NOW
DICTATES LARGER INCREASES THAN CAN BE ABSORBED. HE
PROPOSES FURTHER INCREASES IN PRICES AS WAY TO SOAK UP
EXCESS DEMAND THAT WILL BE CREATED IN INCREASES.
WHILE ABU ISMAIL IS INFLUENTIAL PA MEMBER, GOE UNLIKELY
GO BACK ON PROMISED WAGE INCREASES OR TAKE RISK OF IN-
CREASING PRICES IN ABSENCE OF HARD INFORMATION TO SUPPORT
THESIS OF ADVERSE ECONOMIC IMPACT. FACT THAT THERE HAS
BEEN NO PREVIOUS EXPERIENCE WITH LARGE ONE-TIME WAGE
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INCREASES IN RECENT HISTORY MAKES JOB OF FORECASTING EFFECT
DIFFICULT. END SUMMARY.

1. LOCAL FEARS THAT PROPOSED PUBLIC AND PRIVATE SECTOR
WAGE INCREASES WOULD FUEL RATHER THAN HELP FIGHT INFLATION--
ARY PINCH WERE EXPRESSED ALMOST AS SOON AS GOE FIRST
MADE PROPOSALS IN JANUARY AND FEBRUARY (SEE REFTEL). AS

REALITY OF WAGE INCREASES COMES CLOSER (SEE SEPTTEL FOR STATUS REPORT ON PA CONSIDERATION OF GOE PROPOSALS), RESPONSIBLE AND KNOWLEDGEABLE PEOPLES ASSEMBLY MEMBERS ARE BECOMING MORE CONCERNED. PA BUDGET AND PLAN CHAIRMAN DR. AHMAD ABU ISMAIL (FORMER MINFIN) EXPRESSED HIS VIEWS ON SUBJECT TO EMBOFF MAY 9. ACCORDING TO ABU ISMAIL, GOE WAGE INCREASE PACKAGE (CIVIL SERVICE REFORM AND PUBLIC SECTOR WAGE BILLS), WHICH IS CURRENTLY BEING REVIEWED BY PA MANPOWER COMMITTEE, IS TOO MUCH TOO FAST FOR CURRENT STATE OF EGYPTIAN ECONOMY. ECONOMY IS CONSUMPTION ORIENTED, ABU ISMAIL OBSERVED. ECONOMIC STRATEGY WHICH HE PURSUED WHILE MINISTER (AND WHICH HE DESCRIBED AS PARALLEL THAT OF IMF) WAS GRADUALLY TO INCREASE PRICES TO RESTRICT DOMESTIC DEMAND (BOTH IMPORTS AND LOCAL PRODUCTION) AND, THEREBY, INCREASE EXPORTS. LIMITED WAGE INCREASES WERE NECESSARY TO MAINTAIN POLITICAL STABILITY.

2. EMBOFF OBSERVED THAT GOE HAD INCREASED PRICES OVER PAST YEAR, MANY TO LEVELS ANNOUNCED IN PRE-RIOT BUDGET IN JANUARY 1977. ABU ISMAIL ACKNOWLEDGED THIS BUT SAID GOVERNMENT HAS ONLY CREATED DISCONTENT BY NOT COVERING THOSE INCREASES WITH LIMITED WAGE INCREASE. NOW, IN ORDER COMPENSATE FOR GROWING INTERNAL DISCONTENT, GOE HAS COME UP WITH SWEEPING WAGE INCREASE PROPOSAL WHICH IS FAR IN EXCESS OF WHAT IS NECESSARY TO MITIGATE EFFECT OF INCREASED PRICES. RESULT OF WAGE INCREASES, ABU ISMAIL
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PREDICTED, WILL BE FURTHER INFLATION WHICH GOVERNMENT WILL NOT BE ABLE TO CONTROL. THIS WILL LEAD IN DUE COURSE TO "MUCH MORE DISCONTENT" AND WILL FORCE GOVERNMENT TO TRY TO UNDERTAKE FURTHER PALLIATIVE, BUT EQUALLY SHORT-TERM, MEASURES TO MAINTAIN INTERNAL STABILITY.

3. DR. ABU ISMAIL'S PRESCRIPTION FOR REMEDYING POTENTIAL PROBLEM (ASSUMING THAT WAGE INCREASES ARE NECESSARY) IS TO INCREASE PRICES FURTHER SO TO SOAK UP SOME OF EXCESS IN PROPOSED WAGE INCREASES. ABU ISMAIL SAID GOVERNMENT SHOULD TAKE ADVANTAGE OF PA DEBATE QUIETLY TO RAISE PRICES SO THAT WAGE INCREASES WILL NOT HAVE THOROUGHLY UNDESIRABLE EFFECT. IN THIS CONNECTION, HE POINTED OUT THAT INFLATIONARY IMPACT OF WAGE INCREASES WILL BE COMPOUNDED BY FACT THAT ADDITIONAL TAX BENEFITS WILL BE AVAILABLE TO WAGE EARNER AT ABOUT SAME TIME HIS WAGE INCREASES.

4. COMMENT: SUGGESTION OF FURTHER PRICE INCREASES IN CURRENT POLITICALLY CHARGED ATMOSPHERE REFLECTS FACT THAT DR. ABU ISMAIL NO LONGER HAS RESPONSIBILITY FOR IMPACT OF ECONOMIC DECISIONS. LIKEWISE HIS JUDGMENT THAT PROPOSED WAGE INCREASES ARE IN EXCESS OF AMOUNT NEEDED TO OFFSET

CURRENT INFLATION RATE IS PROBABLY OPEN TO CHALLENGE.
WE ASSUME ABU ISMAIL IS MAKING SAME POINTS TO PARTY BOSS
PM MAMDUH SALEM. WE WOULD SERIOUSLY DOUBT, HOWEVER, THAT
GOE WILL GO BACK DEFINITELY ON PROMISED WAGE INCREASES
(IMPLEMENTATION MIGHT BE DELAYED, HOWEVER) OR TAKE
POLITICAL RISK OF OPENLY INCREASING PRICES OF
COMODITIES IN ABVSENCE OF HARD EVIDENCE OF ADVERSE
ECONOMIC CONSEQUENCES. AS WE HAVE PREVIOUSLY NOTED, FACT
IS THAT MOST WAGE EARNERS HAVE NOT EXPERIENCED ANY
SIGNIFICANTLY LARGE WAGE INCREASES AT ALL IN PAST TEN TO
FIFTEEN YEARS AND THEREFORE THERE IS NO EXPERIENCE ON
WHICH TO BASE RELIABLE IMPACT PROJECTION. THIS IS FURTHER
CONTRIBUTING TO UNCERTAINTY OVER ECONOMIC IMPACT OF
WAGE INCREASES. EILTS
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TAGS: ECON, EFIN, PINT, EG, (ISMAIL, AHMAD ABU)
To: STATE
Type: TE
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